

CONFIDENTIALCENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

World Grain: Soviet Purchases and the Sanctions Issue

Summary

The international grain market has remained quiet since 13 December 1981 when Poland declared martial law. Although Moscow and Warsaw are relying heavily on imports of Western grain to cover domestic production shortfalls, they have already arranged for at least 85 percent of their requirements through June 1982. That coupled with great reluctance on the part of other grain exporters to abrogate commitments suggests that chances of an effective embargo on grain to the Soviet Union are remote.

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World Grain: Soviet Purchases and the Sanctions Issue

The international grain market has greeted calmly the possibility of an embargo of grain sales against the USSR and Poland. Grain prices have changed little during the past few weeks, and no unusual buying activity by the international grain companies has been detected. The tranquility results from a consensus that no embargo is imminent and that the chances of an eventual embargo are remote. Non-US exporters hold sufficient grain to cover short-term Soviet needs in the event of an unilateral US embargo. Only very heavy-handed Soviet involvement in Poland would unite other exporters into an effective embargo. [REDACTED]

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Soviet and Polish Grain Purchases

Both Moscow and Warsaw are using Western grain to cover domestic production shortfalls. Indeed, Poland and the USSR have already arranged for at least 85 percent of their combined expected import requirements for the grain marketing year (MY) ending 30 June 1982. [REDACTED]

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The Soviet Union experienced an unprecedented third consecutive harvest failure in 1981. Although no official announcement has yet been made, the grain crop is expected to be only about 170 million tons--65 million tons below plan. In response, we estimate the Soviets will import a record 45 million tons of grain--the maximum amount their ports can handle--during the current marketing year. They have already lined-up through purchases and commitments 39 million tons of grain from all sources (see Table). During July-December 1981, the USSR lifted almost 22 million tons, with shipments in September surpassing 4 million tons. This record rate has significantly added to port congestion. Since November, ship offloading times at Baltic Sea ports have increased by 5 to 10 days to an average 30 to 40 day wait. Moscow has taken delivery of about half of the 12.5 million tons of US grain bought so far, with the remainder to be shipped before April. [REDACTED]

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Poland's grain harvest last fall rebounded after two disastrous years, reaching an estimated 20.5 million tons. Large increases in domestic production of potatoes and sugar beets--important sources of livestock fodder--further reduced the need for imported feed grains. Poland is expected to cut back grain imports by roughly 20 percent from last year's record level to about 6 million tons. Despite difficult times at home, the Soviet Union has promised to deliver 100,000 tons of grain to Poland. France, Austria, and Canada have provided Poland with credits for the purchase of about 2.5 million tons of grain. In addition, the EC has approved the sale of 458,000 tons of grain to Poland at subsidized prices, some of which probably will be financed by the French loans. During July - December 1981, Warsaw imported one million tons of US grain. The US suspension of export credits after the imposition of martial law will prevent Poland from receiving another 1.6 million tons of grain it had requested. [REDACTED]

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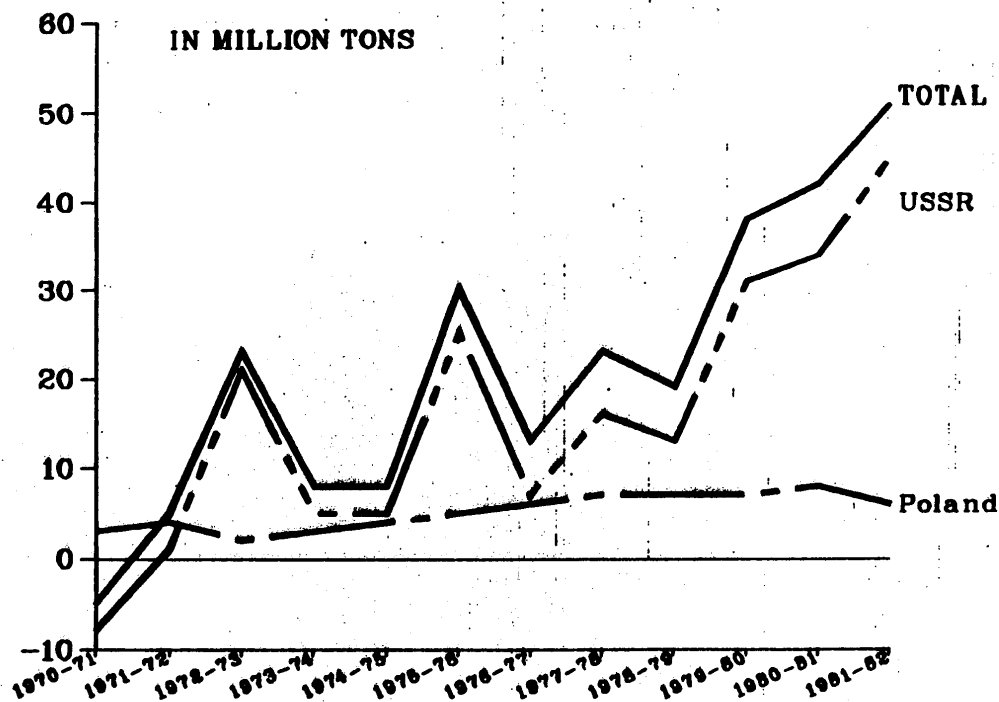
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USSR and POLAND: Net Grain Imports

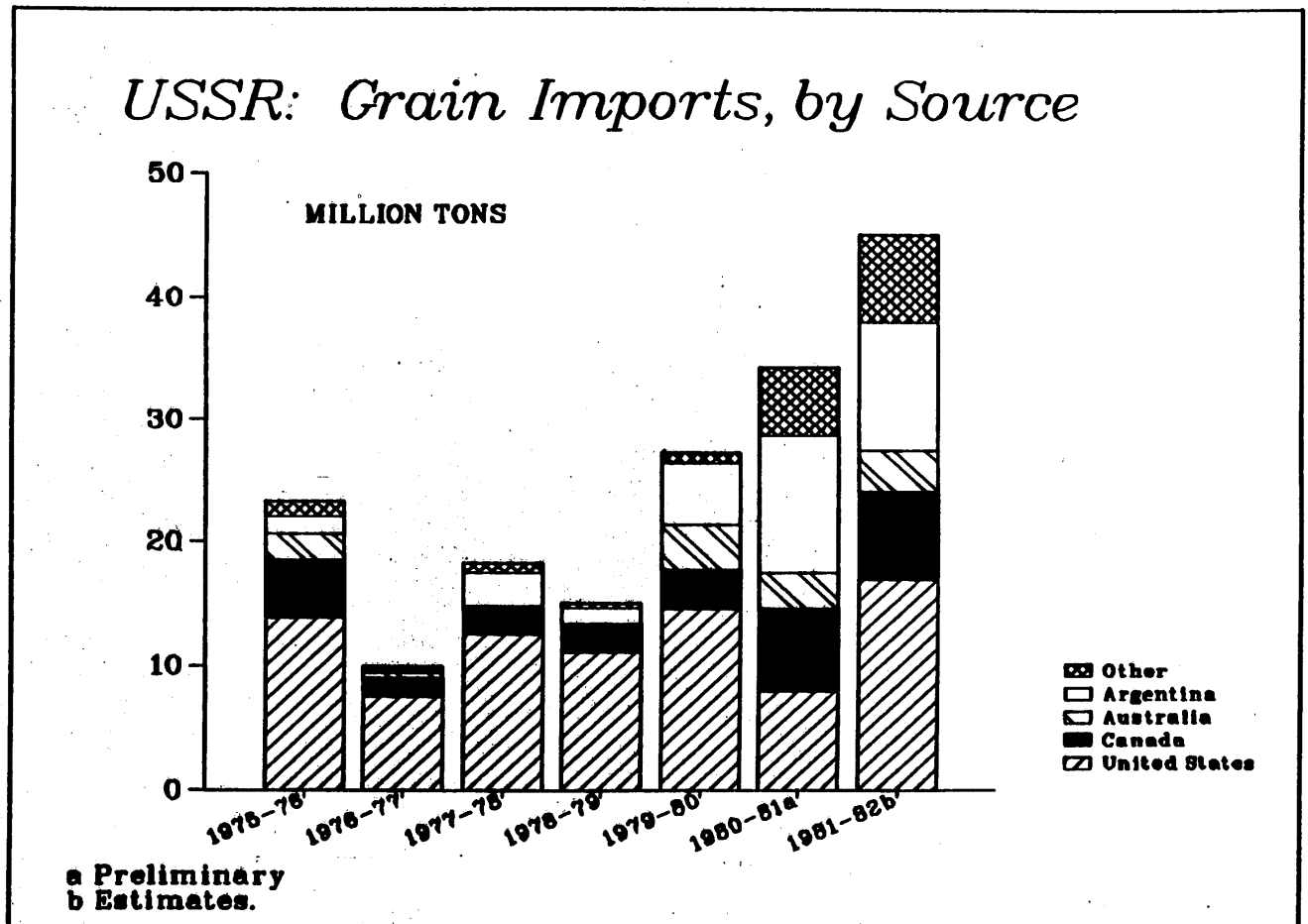


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Embargo Prospects

Since Warsaw declared martial law on 13 December, grain prices generally have drifted lower, following the trend of the last year and reflecting the abundance of grain in the international market.* There has been virtually no enthusiasm for an embargo against the Soviet Union or Poland among the governments or private producer groups of grain-exporting countries. Indeed, most statements to date reflect a wait and see attitude; meanwhile, business as usual is the order of the day. The US decision to delay negotiations scheduled for February on the US-USSR Long Term Grain Agreement provoked little reaction since the current agreement is still in force until 30 September. [REDACTED]

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The market sentiment is based on the recognition that Soviet and Polish import requirements for the current marketing year largely have been met through purchases and commitments. Thus an embargo on future Soviet and Polish purchases might affect only some 8 million tons. Should the United States refuse to ship the roughly 6 million tons of US grain bought by the USSR but not yet delivered, some 14 million tons might initially be denied to the USSR and Poland. In either case, a portion of the US grain thus denied would be made up from other sources, assuming that the United States acted unilaterally to impose such an embargo. Indeed with expectations of a possible record world grain harvest in MY 1981/82 and facing falling prices, many other exporters would be anxious to increase sales to the USSR and Poland. [REDACTED]

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It is widely understood that implementing an effective embargo would depend on the cooperation of all major exporters. This was not achieved during the last embargo, and it probably would be even more difficult now. Termination of the US grain embargo on 24 April 1981 prompted major grain exporters to strengthen their commercial interests with the USSR. The EC eliminated restrictions on grain sales to the USSR and announced that in June 1981 it would resume the normal practice of offering price subsidies on grain sales. The Canadians, who had been trying to exploit the US embargo to get better terms on sales to the USSR, signed a five-year long-term agreement (LTA) with Moscow (see attachment). Buenos Aires, which already had a LTA began to press Moscow harder to purchase additional grain, and Australia, which had a "customer understanding" to sell grain to the USSR, publically announced that it, too, hoped to step up its sales effort. [REDACTED]

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Moreover, the major exporters have indicated an unwillingness to abrogate commitments already made:

[REDACTED] 25X1

* Prices were little affected by the embargo declared in January 1980 but only because of the announcement that the US government would compensate US exporters. [REDACTED]

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instituting economic sanctions. During the 1980 embargo Buenos Aires was the only major grain exporter which did not pledge its support of the United States and instead moved quickly to sign a five-year accord with Moscow guaranteeing the delivery of 4.5 million tons of grain and soybeans annually. Last year, Argentina replaced the United States as the single largest supplier of grain to the USSR--accounting for almost 40 percent of Soviet imports. With its crop reduced from last year's record level, Argentina will not be in a position to play as large a role in Soviet grain trade in 1981/82. Sales and commitments of Argentine grain to the USSR now total 12.5 million tons.

- Canada: External Affairs Minister Macguigan announced that Canada will not cancel its long-term concessional grain sales to Poland. The Canadian Wheat Board has responded negatively, however, to a Polish request for accelerated delivery and price reductions. The Canadians have also sold about 8 million tons of grain to the USSR to be delivered by 30 September--4 million tons of which are covered by their Long Term Agreement. While Canada may agree to curtail additional sales, it would not likely cancel any current contracts.
- EC: No unified position has yet emerged. Chancellor Schmidt has indicated that it is too early to say whether Germany will join sanctions against the USSR and Poland.
- Australia: No stance has been taken, but the Australian Wheat Board plans to discuss its policy on grain sales to the Soviet Union at its Farmer Board meeting in Melbourne on 14 January. However, Australia formally declined to follow the US call for increased trade sanctions against Moscow after martial law was declared in Poland, citing existing sanctions left in place since the Soviet invasion of Afghanistan. The Wheat Board has already sold 1 million tons of wheat to the USSR from the crop now being harvested. [REDACTED] 25X1

Aware of the problems involved, Moscow is not concerned about a US embargo. Indeed, Soviet officials last week threatened to suspend purchases of US corn, but this appears to be only a hollow gesture. Even without such purchases from the United States, Moscow likely will import a record 42 to 43 million tons of grain in the marketing year ending 30 June 1982. With Soviet ports clogged with ships waiting to unload and ample stocks at low prices awaiting buyers, the USSR was expected to delay additional large purchases until Spring. [REDACTED] 25X1

Future Soviet Dependence on US Grain

Soviet import requirements during the next few years suggest a continuing need for access to US grain supplies. Total Soviet grain import requirements will be at least 30 to 40 million tons per year during the early 1980's. They could obtain most of these needs from non-US sources if they chose--but probably not in the mix of wheat and coarse grains they have preferred in the past. In recent years, coarse grains have accounted for roughly 60 percent of Soviet grain imports versus 40 percent for wheat. These relative shares likely will be maintained so long as the Soviet leadership pursues efforts to increase livestock numbers. [REDACTED] 25X1

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The United States accounts for roughly two-thirds of world coarse grain exports in a typical year. This coupled with unsurpassed flexibility in scheduling of grain shipments, makes US grain very important to Soviet planning in a period as short as five years. US coarse grain output is both much larger than that of any other producer and more reliable. It is also predominately corn--the grain of choice for livestock feeding in a typical year.

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Unless Moscow decides to feed more wheat and barley to livestock, the Soviets will have difficulty avoiding US grain through 1985. In a typical year, the Soviets might be able to obtain the following amounts of corn:

Million Tons

Argentina	7.0
Brazil	1.0
Thailand	0.5
Eastern Europe	0.5
	<u>9.0</u>

This compares with the 18 to 24 million tons of coarse grain they need annually. Argentina offers the greatest possibility as an alternative to US supplies, but the Soviets have not increased their commitment which obligates them to buy 4 million tons of coarse grain per year. Moscow has also agreed to purchase, if available, 500,000 tons of corn from Brazil beginning in 1983. These tonnages surely help to underscore for Moscow the importance of a US corn crop.

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Appendix

USSR: Existing Non-US Grain AgreementsArgentina (1 January 1980 to 31 December 1985)

- Authorizes the USSR to purchase from private commercial firms 4 million tons of corn and sorghum and 500,000 tons of soybeans.
- Purchases in excess of these quantities will be authorized only after consultation.
- Purchases and/or sales will be made at prevailing market prices.
- Quantities stipulated in the agreement and additional amounts agreed upon by both parties will not be affected by any embargo on amounts over and above those contracted for.

Canada (1 August 1981 to 31 July 1986)

- Authorizes the USSR to purchase from the Candian Wheat Board a minimum of 4 million tons of wheat, barley and oats in 1981/82. The minimum commitment will increase half a million tons per year to reach 6 million tons in the fifth and last year of the agreement.
- Quantities stipulated in agreement will include grain shipments to Cuba on Soviet account.
- Prices covering transactions will be negotiated every 6 months.
- Quantities stipulated in the agreement will not be affected by any restrictions imposed by the Canadian government. Unlike the Argentine agreement, additional amounts agreed to by both parties may be subject to embargo.

Brazil (1 January 1982 to 31 December 1986)

- Authorizes the USSR to purchase from private firms and cooperatives a minimum of 500,000 tons of soybeans and 400,000 of soybean meal.
- Beginning in 1983, approximately 500,000 tons of corn will be exported to the USSR annually.
- Prices will be negotiated rather than at current market levels.

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